

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. NO.: 4112-01
BILL NO.: HB 1755
SUBJECT: Revenue Dept.; Taxation and Revenue-General-Income-Sales and Use
TYPE: Original
DATE: February 16, 2000

FISCAL SUMMARY

ESTIMATED NET EFFECT ON STATE FUNDS			
FUND AFFECTED	FY 2001	FY 2002	FY 2003
General Revenue	(\$1,683,159)	(\$1,500,000)	(\$1,500,000)
Total Estimated Net Effect on <u>All</u> State Funds	(\$1,683,159)	(\$1,500,000)	(\$1,500,000)

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2001	FY 2002	FY 2003
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2001	FY 2002	FY 2003
Local Government	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.

This fiscal note contains 3 pages.

FISCAL ANALYSIS

ASSUMPTION

Officials of the **Department of Revenue (DOR)** state this legislation will require properly documented sales use tax refunds to be refunded within 120 days. It also requires interest be paid on credits, and provides for an adjustable interest rate on corporate refunds. The adjustable interest rate as discussed in 32.065 as well as interest on credits creates major system changes for Department of Revenue's corporate and sales tax systems.

Paying interest on credits will require several new main frame programs, and using an interest rate that is adjustable annually such as that discussed in 32.065 will also cause major system changes within Department of Revenue. DOR staff project 5017 hours @\$30.00 per hour to make these changes and the State Data Center will charge \$32,649.00 to test and implement this system.

Refunds of this type average around 30 million dollars per year and a recent sample indicates they are reduced on average from 5% to 25%. These type refunds do take 6 months or so for Department of Revenue to complete audits and make other checks, so DOR would assume if they are not checked or audited there will be unrecoverable refunds. If the percentage is 5% and the amount is 30 million the loss to general revenue would be 1.5 million. If the percentage is 25% the loss could be 7.5 million. For projection purposes DOR staff have used the conservative 1.5 million figure as a loss to General Revenue.

This proposal would result in a decrease in Total State Revenues.

<u>FISCAL IMPACT - State Government</u>	FY 2001 (10 Mo.)	FY 2002	FY 2003
GENERAL REVENUE FUND			
<u>Cost - Department of Revenue</u>			
Reprogramming costs	(\$183,159)	\$0	\$0
<u>Loss to General Revenue Fund</u>			
Increase in erroneous refunds	(\$1,500,000)	(\$1,500,000)	(\$1,500,000)
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>(\$1,683,159)</u>	<u>(\$1,500,000)</u>	<u>(\$1,500,000)</u>

<u>FISCAL IMPACT - Local Government</u>	FY 2001 (10 Mo.)	FY 2002	FY 2003
	\$0	\$0	\$0

FISCAL IMPACT - Small Business

No direct fiscal impact to small businesses would be expected as a result of this proposal.

DESCRIPTION

This bill makes changes to the conditions for allowing income tax and sales tax refunds or credits and for the payment of interest on certain overpayment or underpayment of taxes.

Under current law, any balance resulting from the offset of any income or withholding tax overpayment to satisfy other debts owed the state by the taxpayer must be refunded to the taxpayer. The bill will allow the balance to be credited to the taxpayer's account instead of being refunded. The bill also requires the payment of interest at the statutory adjusted rate to an income taxpayer when an overpayment of taxes resulted from the taxpayer filing an amended return after the due date of the original return.

Under current law, the taxpayer would receive 6% per annum interest under this circumstance. Under current law, interest is paid on any balance that results after the crediting of any overpayment of sales tax against the current sales tax liability of a taxpayer. The bill requires interest to be paid prior to the crediting of overpayments against a taxpayer's current liability. The Director of the Department of Revenue will be required to refund the balance within 120 days from the date the tax was collected after receiving proper documentation from the taxpayer. The bill also limits the recovery in any action taken to recover erroneous refund claims from a sales/use tax filer to 6 months from the date of the alleged erroneous refund.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Department of Revenue



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